

---

TAB 13

*JOCKEYS' GUILD, INC.*

---

*FINANCIAL STATEMENTS*  
*For the Years Ended December 31, 2002 and 2001*  
*with*  
*INDEPENDENT AUDITOR'S REPORT*

Independent Auditor's Report.....	1
Financial Statements	
Statements of Financial Position.....	2
Statements of Activities and Net Assets.....	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5-13



PIAZZA, DONNELLY & MARLETTE  
CERTIFIED PUBLIC ACCOUNTANTS

L. G. Marlette Jr., CPA  
Scott J. Donnelly, CPA  
Dana N. Piazza, CPA

## *INDEPENDENT AUDITORS' REPORT*

Board of Directors  
Jockeys' Guild, Inc.

We have audited the accompanying statements of financial position of Jockeys' Guild, Inc. (the Guild), (a Nevada not-for-profit corporation) as of December 31, 2002 and 2001 and the related statements of activities and net assets and cash flows for the years then ended. These financial statements are the responsibility of the Guild's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

For the year ended December 31, 2001, we were unable to obtain sufficient evidential matter in connection with member mount fees, assessments, and revenues from tracks, necessary to obtain reasonable assurance about whether the statement of activities and net assets and cash flows are free of material misstatements. We, therefore, do not express an opinion on the accompanying statements of activities and net assets and cash flows for the year ended December 31, 2001.

In our opinion, the accompanying statements of financial position present fairly the financial position of Jockeys' Guild, Inc. as of December 31, 2002 and 2001, and the related statements of activities and net assets and cash flows for the year ended December 31, 2002, present fairly, in all material respects, the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Piazza Donnelly Marlette LLP*

Piazza, Donnelly, & Marlette LLP  
Torrance, California  
November 5, 2003

## STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2002 AND 2001

	2002			2001
	Unrestricted	Temporarily Restricted	Total	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 2,583,867	\$ 1,578,129	\$ 4,161,996	\$ 2,123,038
Accounts receivable, net of allowance for doubtful accounts	520,780	-	520,780	367,656
Related party receivable (payable)	27,742	(27,742)	-	-
Prepaid expenses and other	18,947	-	18,947	16,614
Total current assets	3,151,336	1,550,387	4,701,723	2,507,308
Furniture and equipment, net of accumulated depreciation	1,121	-	1,121	10,331
Other assets				
Investments, at market value	1,262,177	51,031	1,313,208	1,669,093
Deposit with insurance trust	26,399	-	26,399	34,399
Interfund receivable (payable)	988,155	(988,155)	-	-
Other	-	-	-	1,000
Total other assets	2,276,731	(937,124)	1,339,607	1,704,492
Total assets	5,429,188	613,263	6,042,451	4,222,131
<b>LIABILITIES</b>				
Current Liabilities				
Accrued expenses and other	(217,933)	-	(217,933)	(309,332)
Member refund payable	(845,256)	-	(845,256)	(454,933)
Total current liabilities	(1,063,189)	-	(1,063,189)	(764,265)
Commitments and Contingencies				
Total liabilities	(1,063,189)	-	(1,063,189)	(764,265)
TOTAL NET ASSETS	\$ 4,365,999	\$ 613,263	\$ 4,979,262	\$ 3,457,866
Unrestricted	\$ 4,300,999	\$ -	\$ 4,300,999	\$ 2,884,266
Temporarily restricted	65,000	613,263	678,263	573,600
Total net assets	\$ 4,365,999	\$ 613,263	\$ 4,979,262	\$ 3,457,866

See the Independent Auditor's Report  
and accompanying notes to the financial statements

## STATEMENTS OF ACTIVITIES AND NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002			2001
	Unrestricted	Temporarily Restricted	Total	
<b>REVENUES</b>				
Operating revenues				
Media rights revenue	\$ 2,190,757	\$ -	\$ 2,190,757	\$ 1,866,296
Member mount fees, assessments, and dues	1,157,956	-	1,157,956	1,298,627
Health insurance premiums income	1,441,407	-	1,441,407	71,736
Miscellaneous	-	-	-	4,915
Total operating revenues	4,790,120	-	4,790,120	3,241,574
Other revenues				
Investment income (loss)	(131,811)	17,927	(113,884)	102,053
State program co-pay requirement	(26,000)	26,000	-	-
State program contributions	65,000	1,269,832	1,334,832	858,950
Release of temporarily restricted net assets through fulfillment of state program restrictions	1,251,387	(1,251,387)	-	-
TOTAL REVENUES	5,948,696	62,372	6,011,068	4,202,577
<b>EXPENSES</b>				
Program services				
Insurance and disability benefits	2,886,320	-	2,886,320	3,147,777
Assisting the regulation and promoting the integrity of racing	434,189	-	434,189	263,905
Total program services	3,320,509	-	3,320,509	3,411,682
Supporting services	1,146,454	22,709	1,169,163	1,053,020
TOTAL EXPENSES	4,466,963	22,709	4,489,672	4,464,702
CHANGE IN NET ASSETS	1,481,733	39,663	1,521,396	(262,125)
NET ASSETS AT BEGINNING OF YEAR	2,884,266	573,600	3,457,866	3,719,991
NET ASSETS AT END OF YEAR	\$ 4,365,999	\$ 613,263	\$ 4,979,262	\$ 3,457,866

See the Independent Auditor's Report  
and accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,521,396	\$ (262,125)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	9,210	10,125
Allowance for bad debt	(26,000)	50,000
Net realized (gain) / loss and appreciation on investments	200,804	(2,828)
Change in operating assets and liabilities:		
Accounts receivable	(127,124)	24,107
Prepaid expenses and other	(2,332)	67,203
Other assets	1,000	-
Accrued expenses and other	(91,399)	193,894
Membership refund payable	390,323	454,933
Net cash provided by operating activities	1,875,878	535,309
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(40,920)	(4,398)
Proceeds from sale of investments	196,000	710,219
Deposit with insurance trust	8,000	(22,518)
NET CASH PROVIDED BY INVESTING ACTIVITIES	163,080	683,303
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,038,958	1,218,612
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,123,038	904,426
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 4,161,996	\$ 2,123,038

See the Independent Auditor's Report  
and accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 and 2001

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Jockeys' Guild, Inc. (the Guild) is a Nevada corporation existing under the Nevada Not-For-Profit Corporation Law. The Guild provides various benefits to its members, the jockeys. These benefits include health, life, and dental insurance as well as disability benefits. The level of benefits provided is dependent upon the members' classification. The insurance and disability benefits are funded with revenues received from its members and the disability benefits are also funded by the Thoroughbred Racing Associations of North America, Inc. through payments it makes for media rights (Note 9). The states of California, Delaware, and Massachusetts provide funding for these benefits which are restricted for the use of jockey's riding in those respective states (See Note 12).

**Basis of Accounting**

The financial statements of Jockeys' Guild, Inc. have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Basis of Presentation**

The Guild reports information regarding its financial position and activities according to two classes of net assets: unrestricted net assets and temporarily restricted net assets. The net assets and revenues, gains and losses are classified based on the existence or absence of donor stipulated restrictions as follows:

*Unrestricted net assets* – Net assets that are not subject to donor-imposed restrictions.

*Temporarily restricted net assets*–Net assets that are subject to donor-imposed restrictions that can be fulfilled by actions of the Guild or that expire through the passage of time. These assets are accounted for in the Health and Welfare fund and are used to provide for the needs of the jockeys.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions for the reporting period and as of the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent liabilities and the reported amounts of revenues and expenses. Specifically, significant estimates have been made with respect to the collectibility of accounts receivable, and the ultimate liability for member refunds payable, as well as the realizability of the gain arising from the estimated prepaid pension costs. Actual results could differ from those estimates.

*See the Independent Auditor's Report*



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 and 2001

---

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**December 31, 2001 financial information**

Only the totals for December 31, 2001 financial information have been presented. Reclassifications have been made to some of the prior year summarized financial information in order to present that information in the same manner as the current year financial information. These reclassifications had no effect on previously reported net income.

**Cash and cash equivalents**

For the purpose of the statement of cash flows, the Guild considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At December 31, 2002 and 2001, there were no cash equivalents. The Guild maintains cash balances in federally insured institutions significantly in excess of insured amounts on an ongoing basis.

**Accounts Receivable**

Accounts receivable consists primarily of track revenues, member fees, assessments, dues receivable, and health insurance premiums.

**Investments**

Investments consist primarily of marketable equity and debt securities. The specific identification method is used to determine the carrying value of investment securities sold. The Guild accounts for investments in equity securities with readily determinable fair values and all investments in debt securities at fair market value in the financial statements. The change in fair market values is recorded as an increase or decrease to net assets through investment income.

**Furniture, Equipment, and Depreciation**

Furniture and equipment are recorded at cost. Depreciation is calculated using the double declining method over the estimated useful lives of 5 and 7 years.

The cost at normal maintenance and repairs is expensed as incurred. Additions and betterments of a major nature are capitalized. When furniture and equipment are retired from use or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gains or losses are recorded in income.

**Compensated Absences**

The Guild has no policy regarding vacation or sick pay, and therefore, as of December 31, 2002 and 2001, no accrual has been made for compensated absences.

---

*See the Independent Auditor's Report*

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 and 2001

---

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition**

The Guild's revenues consist primarily of fees, assessments, and dues from members and revenues from tracks for media rights. Mount fees are assessed on each mount ridden by a member and are recognized during the period in which the mount takes place (Note 10). Revenues from tracks for media rights (Note 9) are also recognized during the period in which the mount takes place or racing day occurs. The Guild is dependent on the overall economy of thoroughbred racing.

**Grants, Contributions, and Donations**

All grants, contributions, and donations are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reported in the statement of activities as released to unrestricted net assets.

**Income Taxes**

The Guild is exempt from federal income taxes under Section 501(c) (5) of the Internal Revenue Code as a labor organization and the laws of the state of Nevada. Therefore, no provision for federal and state income taxes has been accrued.

**NOTE 2-STATEMENT OF CASH FLOWS**

The Guild paid no interest or taxes during the year ended December 31, 2002 or 2001. There were also no significant noncash transactions.

**NOTE 3-ACCOUNTS RECEIVABLE**

The Guild has specifically identified and written off or provided an allowance for all accounts of which they are doubtful of collection. The Guild wrote off \$16,085 which was recognized in supporting services as a bad debt expense during the year ended December 31, 2002. The Guild also recorded a \$24,000 allowance for bad debt which is netted against the receivable and recognized in supporting services as a bad debt expense as of December 31, 2002. The Guild wrote off \$627,162 during the year ended December 31, 2001 which was netted against media rights revenue during the year ended December 31, 2001. The Guild recorded a \$50,000 allowance for bad debt as of December 31, 2001.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 and 2001

**NOTE 4- FURNITURE AND EQUIPMENT**

As of December 31, 2002 and 2001 property and equipment consisted of the following:

	2002	2001
Computer hardware	\$ 59,496	\$ 59,496
Furniture and equipment	<u>80,008</u>	<u>80,008</u>
	139,504	139,504
Less accumulated depreciation and amortization	<u>138,383</u>	<u>129,173</u>
	<u>\$ 1,121</u>	<u>\$ 10,331</u>

**NOTE 5 - INVESTMENTS**

Marketable securities are managed by an investment manager and held by a third-party trustee. They consist of the following (grouped by type of security):

December 31, 2002			
	Cost or Other Basis	Fair Value	Unrealized Gain (Loss) Cumulative
Unrestricted:			
Common/preferred stock	\$ 684,928	\$ 1,262,177	\$ 577,249
Temporarily restricted:			
U.S. Government Obligations	<u>51,984</u>	<u>51,031</u>	<u>(953)</u>
Total	<u>\$ 736,912</u>	<u>\$ 1,313,208</u>	<u>\$ 576,296</u>
December 31, 2001			
	Cost or Other Basis	Fair Value	Unrealized Gain (Loss) Cumulative
Unrestricted:			
Common/preferred stock	\$ 639,614	\$ 1,412,720	\$ 773,106
Temporarily restricted:			
U.S. Government Obligations	<u>241,309</u>	<u>256,373</u>	<u>15,064</u>
Total	<u>\$ 880,923</u>	<u>\$ 1,669,093</u>	<u>\$ 788,170</u>

Investment income for the years ended December 31, 2002 and 2001, consist of the following:

	2002	2001
Realized and unrealized gains/(losses)	\$ (200,544)	\$ 2,828
Interest and dividends	<u>86,660</u>	<u>99,225</u>
	<u>\$ (113,884)</u>	<u>\$ 102,053</u>

See the Independent Auditor's Report

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 and 2001

**NOTE 6-INTERFUND RECEIVABLE (PAYABLE)**

The interfund receivable (payable) represents the balance of amounts due from Health and Welfare Funds to reimburse the Guild for expenses incurred to provide insurance and other benefits to the member jockeys (See Note 12, restricted state programs). At December 31, 2002 and 2001, the Guild had receivables from the Health and Welfare Trust Funds of \$988,155 and \$371,789 respectively. The receivables are limited to the remaining restricted net assets held in the respective State Health and Welfare Trust Funds as of December 31, 2002 and 2001. The California Health and Welfare Trust Funds had liabilities in excess of assets of \$259,972 and \$263,022 as of December 31, 2002 and 2001 respectively.

**NOTE 7-MEMBERS REFUNDS PAYABLE**

Regular active members of the Guild may elect to have an additional \$7 withheld from their mount fee and remitted to the Guild to pay for certain benefits such as medical insurance. To the extent the fees remitted exceed the cost of the benefits, a liability to the jockey is recorded. Prior to 2002, the regular active members of the Guild could voluntarily participate in a savings plan, under which a portion of each mount fee earned by the jockey was deposited in an individual savings account for, and in the name of, the jockey at a thrift institution.

Members refunds payable is made up of the excess fees collected less costs paid plus any unpaid member savings plan accounts. The regular active members may request payment to them at any time.

**NOTE 8 – FUNCTIONAL ALLOCATION OF EXPENSES**

The cost of providing the various programs and activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**NOTE 9 – MEDIA RIGHTS REVENUE**

During 2002, the Guild operated under an agreement with the Thoroughbred Racing Associations of North America, Inc. (T.R.A.) relating to the use of jockeys' names and pictures for radio, television, and off-track betting purposes (e.g. media rights). The T.R.A. represents the race tracks. For these media rights, each track contributed to the Guild an amount for each mount raced as well as a fee for each race day the track was open. The contract was effective through December 31, 2002. Contract negotiations with the T.R.A. are pending, but the T.R.A. has continued to contribute to the Guild based on the terms of the expired contract.

The fee for each jockey which mounted a horse in each race ranged from \$3.63 to \$7.57 for 2002 and 2001 respectively, depending on the class of the race meeting.

The race tracks also pay a fee for each race day the track is open. The amounts paid to the Guild for each day on which racing occurs varies depending on the classification of the track as follows:

<u>Year</u>	<u>Class A Race Meeting</u>	<u>Class B Race Meeting</u>	<u>Class C Race Meeting</u>
2001 – 2002	\$75	\$65	\$50

The total monies earned under these agreements are recognized as media rights income.

*See the Independent Auditor's Report*

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 and 2001

**NOTE 10 – MEMBER MOUNT FEES, ASSESSMENTS, AND DUES**

Jockeys that join the Guild agree to pay a fee each time they mount a horse in a race in addition to their basic dues to help fund the activities of the Guild. The fee was \$3 and \$5 per mount respectively during the years ended December 31, 2002 and 2001. The mount fee was lowered from \$5 to \$3 effective April 1, 2001 when the prior management discontinued some of the health insurance and other benefits it had previously provided to the jockeys.

**NOTE 11 – DEFINED BENEFIT PENSION PLAN**

The Guild has a non-contributory defined benefit pension plan covering substantially all of its employees. The benefit obligation below reflects the obligation as of December 31, 2002. It also reflects the fact that the plan was frozen on March 31, 2001. Benefits are based on years of service and the employee's highest average compensation for a 5-year consecutive period in the last 10 years of employment through March 31, 2001. No further benefits will accrue to plan participants after this date. The Guild's funding policy is to satisfy the minimum contribution required by law, but such minimum contributions cannot be in excess of the maximum contributions permitted to taxable organizations by the Internal Revenue Code.

Net pension costs consist of the following:

	2002	2001
Service cost – benefits earned during the year	\$ -	\$ 146,706
Interest cost	215,870	253,917
Net amortization and deferral	-	(25,009)
Return on plan assets	(282,669)	(315,238)
Net periodic pension cost/(credit)	<u>\$ (66,799)</u>	<u>\$ 60,376</u>

The assumptions used to develop the projected benefit obligation were:

	2002	2001
- Discount rate	6.1%	6.5%
- Rate of increase in salary levels	N/A	N/A
- Expected long-term rate of return on plan assets	7.0%	7.0%

The following table sets forth the plan's funded status and amounts recognized in the Guild's balance sheets for 2002 and 2001:

Actuarial present values of Benefit Obligation were as follows:

	December 31,	
	2002	2001
Market value of plan assets	\$ 4,241,951	\$ 4,129,628
Benefit obligation	3,477,774	3,412,584
Funded status	764,177	717,044
Unrecognized net asset	-	-
Unrecognized net (gain)/loss	(88,519)	(108,185)
Prepaid pension costs	675,658	608,859
Valuation allowance	(675,658)	(608,859)
Prepaid pension costs net of valuation allowance	<u>\$ -</u>	<u>\$ -</u>

See the Independent Auditor's Report

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 and 2001

**NOTE 11 – DEFINED BENEFIT PENSION PLAN (CONTINUED)**

The Guild has not recognized the gain on freezing of the plan which resulted in estimated prepaid pension cost of \$675,658 and \$608,859 as of December 31, 2002 and 2001 respectively, because it does not believe it will realize that gain.

**NOTE 12 – COMMITMENTS AND CONTINGENCIES****Restricted State Funding**

The states of California, Delaware, and Massachusetts have passed legislation to provide funding to help defray the cost of providing certain health and welfare benefits for jockeys. The Guild has been appointed as the representative organization of California, Delaware, and Massachusetts jockeys under these programs. This funding is held in a separate trust for each state. The Delaware legislation requires the Guild to pay into the trust \$500 for each eligible Delaware Jockey participating in the program. Each state's legislation provided for a maximum funding amount in the year enacted. The maximum funding amount is adjusted annually for inflation. Restricted state funding recognized during the year in temporarily restricted net assets, and the amounts for which restrictions were fulfilled resulting in releases of the restricted net assets, and the remaining trust assets are as follows:

	<u>2002</u>	<u>2001</u>
State funding recognized		
California	\$ 884,235	\$ 460,171
Delaware	<u>385,597</u>	<u>398,779</u>
	<u>\$ 1,269,832</u>	<u>\$ 858,950</u>
Fulfillment of restrictions		
California	\$ 870,847	\$ 551,783
Delaware	<u>380,540</u>	<u>387,443</u>
	<u>\$ 1,251,387</u>	<u>\$ 939,226</u>
Remaining restricted net assets held in trust		
California	\$ -	\$ -
Delaware	<u>613,263</u>	<u>573,600</u>
	<u>\$ 613,263</u>	<u>\$ 573,600</u>

At December 31, 2002, the State of Massachusetts provided state funding to the Guild in the amount of \$65,000. The Guild did not incur expenditures on behalf of Massachusetts jockeys as of December 31, 2002. This amount is reported as temporary restricted net assets of the Guild.

*See the Independent Auditor's Report*

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 and 2001

**NOTE 12 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Lease Commitments**

The Guild leases office facilities and storage space in Lexington, Kentucky under two non-cancelable operating leases expiring in 2003. The office lease provides for a "base" rent of approximately \$4,800 per month through February 2003. An additional rent based on the operating expense differential is charged as part of the lease. The Guild has a monthly lease with the management company for its office facilities in California (See Note 13). As of December 31, 2002, the Guild has not negotiated a lease agreement. Rent expense for the years ended December 31, 2002 and 2001 was approximately \$105,000 and \$72,000 respectively.

Approximate non-cancelable annual minimum lease payments as of December 2002, are as follows:

2003	\$10,911
------	----------

**Litigation**

In the normal course of its operations, the Guild is involved in a variety of legal disputes. In the opinion of management, the amount of ultimate liability with respect to all of these actions will not have a material adverse effect on the financial condition of the Guild. As of December 31, 2002 and 2001, no liability has been recorded with respect to these actions.

**NOTE 13 – RELATED PARTY TRANSACTIONS**

**Management Company**

Effective June 15, 2001, the Guild terminated its management arrangement with a predecessor company and retained the services of Matrix Capital Associates, Inc. (Matrix) on an interim basis. Effective January 1, 2002, the Guild agreed to modify and extend its initial agreement with Matrix and Matrix agreed to continue as the Guild's independent operating manager for a three year term, commencing January 1, 2002 and ending December 31, 2004. The terms of the agreement specify that the Guild would employ Dr. Gertmenian, as president and chief executive officer at an annual compensation of \$75,000. In addition, the Guild would provide directors and officers insurance, reasonable and customary disability insurance, \$12,000 per year of life insurance premiums with the beneficiaries to be designated by Dr. Gertmenian, a leased car with the cost to the Guild not to exceed \$500 per month and other reasonable customary business expenses. Matrix will provide leased facilities to the Guild for a ten (10) year period with the annual rent not to exceed \$97,464. Management fees paid for 2002 were \$420,000 and for the six and one-half months ending December 31, 2001 were \$212,000.

On or before December 31<sup>st</sup> of each year of the agreement, the parties agree to re-negotiate, extend, or terminate this contract. In the absence of such agreement, or if either party terminates this agreement for any reasons, the Guild will pay the balance of Dr. Gertmenian's salary owing on this three year contract within ninety (90) days of written notification by either party.

*See the Independent Auditor's Report*

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 and 2001

NOTE 13 – RELATED PARTY TRANSACTIONS (CONTINUED)

Disabled Jockeys' Fund

The Disabled Jockeys' Fund is a trust that was established in Kentucky in 1991 to accept charitable contributions for the purpose of providing benefits to jockeys who are temporarily or permanently disabled. The Fund is a related party to the Guild through common management, which shares the administrative functions of each of the entities.

Disabled Jockeys' Endowment, Inc.

The Disabled Jockeys' Endowment, Inc. (Endowment) is a trust established in Nevada in 2002 to accept charitable contributions on an endowment basis for the purpose of providing benefits to jockeys who are temporarily or permanently disabled. The benefits provided are to be paid for out of investment earnings with no right to invade the principle. The president of the Guild represents the Guild's interest as a trustee of the board of the Endowment. The Guild pays all administrative costs of the Endowment.

---

*See the Independent Auditor's Report*



---

TAB 14

**JOCKEYS' GUILD, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2003**

*JOCKEYS' GUILD, INC.*  
*INDEX*

	<b>Page</b>
Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities and Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 13
Schedule of Program and Supporting Services	14

---



PIAZZA, DONNELLY & MARLETTE  
CERTIFIED PUBLIC ACCOUNTANTS

L. G. Marlette Jr., CPA  
Scott J. Donnelly, CPA  
Dana N. Piazza, CPA

## Independent Auditors' Report

To the Board of Directors  
Jockeys' Guild, Inc.

We have audited the accompanying statement of financial position of Jockeys' Guild, Inc. (the Guild), (a Nevada not-for-profit corporation) as of December 31, 2003 and the related statements of activities and net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Guild's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying statement of financial position of Jockeys' Guild, Inc. as of December 31, 2003 and the related statements of activities and net assets and cash flows for the year then ended, present fairly, in all material respects, the Guild's financial position, the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of program and supporting services on page 14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Piazza Donnelly Marlette & P*

Torrance, California  
December 1, 2004

**JOCKEYS' GUILD, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31,**

**ASSETS**

	2003		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 1,353,613	\$ 1,654,799	\$ 3,008,412
Accounts receivable, net of allowance for doubtful accounts	759,742	-	759,742
State reimbursements receivable	-	1,873,878	1,873,878
Interfund balance	1,873,878	(1,873,878)	-
Prepaid expenses and other	23,177	-	23,177
	<u>4,010,410</u>	<u>1,654,799</u>	<u>5,665,209</u>
 <b>FURNITURE AND EQUIPMENT, net</b>	 <u>31,722</u>	 <u>-</u>	 <u>31,722</u>
 <b>INVESTMENTS, at market value</b>	 <u>1,584,758</u>	 <u>-</u>	 <u>1,584,758</u>
	<u>\$ 5,626,890</u>	<u>\$ 1,654,799</u>	<u>\$ 7,281,689</u>

**LIABILITIES AND NET ASSETS**

	2003		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>CURRENT LIABILITIES</b>			
Accrued expenses payable	\$ 313,304	\$ -	\$ 313,304
Medical claims payable	285,745	-	285,745
Member refunds payable	770,381	-	770,381
Unearned revenue	17,158	-	17,158
Reserve for future claims	850,000	-	850,000
	<u>2,236,588</u>	<u>-</u>	<u>2,236,588</u>
 <b>TOTAL NET ASSETS</b>	 <u>\$ 3,390,302</u>	 <u>\$ 1,654,799</u>	 <u>\$ 5,045,101</u>
 Unrestricted	 \$ 3,390,302	 \$ -	 \$ 3,390,302
Temporarily restricted	 -	 1,654,799	 1,654,799
<b>TOTAL NET ASSETS</b>	<u>\$ 3,390,302</u>	<u>\$ 1,654,799</u>	<u>\$ 5,045,101</u>

*See the Independent Auditors' Report  
and Notes to Financial Statements*

**JOCKEYS' GUILD, INC.**  
**STATEMENT OF ACTIVITIES AND NET ASSETS**  
**YEAR ENDED DECEMBER 31,**

	2003		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>MEMBER REVENUE</b>			
Media rights	\$ 2,305,176	\$ -	\$ 2,305,176
Member mount fees, assessments and dues	1,204,162	-	1,204,162
Health insurance premiums	<u>1,894,383</u>	<u>-</u>	<u>1,894,383</u>
	5,403,721	-	5,403,721
<b>OTHER REVENUE</b>			
Investment income	341,153	14,876	356,029
Legal settlement	15,143	-	15,143
State program co-pay requirement	(23,500)	23,500	-
State program contributions	38,127	1,261,147	1,299,274
Release of temporarily restricted net assets through fulfillment of state program restrictions	<u>257,987</u>	<u>(257,987)</u>	<u>-</u>
<b>TOTAL REVENUES</b>	<u>6,032,631</u>	<u>1,041,536</u>	<u>7,074,167</u>
<b>PROGRAM SERVICES</b>	5,154,139	-	5,154,139
<b>SUPPORTING SERVICES</b>	<u>1,854,189</u>	<u>-</u>	<u>1,854,189</u>
<b>TOTAL EXPENSES</b>	<u>7,008,328</u>	<u>-</u>	<u>7,008,328</u>
<b>CHANGE IN NET ASSETS</b>	(975,697)	1,041,536	65,839
<b>NET ASSETS</b>			
January 1, 2003	<u>4,365,999</u>	<u>613,263</u>	<u>4,979,262</u>
December 31, 2003	<u>\$ 3,390,302</u>	<u>\$ 1,654,799</u>	<u>\$ 5,045,101</u>

*See the Independent Auditors' Report  
and Notes to Financial Statements*

**JOCKEYS' GUILD, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31,**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>2003</u>
Change in net assets	\$ 65,839
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	9,053
Reserve for future claims	850,000
Allowance for bad debt	342,000
Unrealized gains on investments	(250,631)
Realized gains on investments	(48,528)
Unearned revenue	17,158
Change in operating assets and liabilities:	
Accounts receivable	(560,154)
Prepaid expenses and other assets	52,392
State reimbursement receivable	(1,873,878)
Medical claims payable	285,745
Accrued expenses payable	95,371
Membership refund payable	(74,875)
Net cash used by operating activities	<u>(1,090,508)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of investments	(161,827)
Proceeds from sale of investments	138,405
Purchases of furniture and equipment	(39,654)
Net cash used by investing activities	<u>(63,076)</u>
 <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	 (1,153,584)
 <b>CASH AND CASH EQUIVALENTS</b>	
January 1, 2003	<u>4,161,996</u>
December 31, 2003	<u>\$ 3,008,412</u>

*See the Independent Auditors' Report  
and Notes to Financial Statements*

**JOCKEYS' GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2003**

**NOTE 1 - NATURE OF ORGANIZATION**

Jockeys' Guild, Inc. (the "Guild") is a Nevada corporation existing under Nevada Not-For-Profit Corporation Law. The Guild provides various benefits to its members, the jockeys. These benefits include health, life, and dental insurance as well as disability benefits. The level of benefits provided is dependent upon the members' classification. The insurance and disability benefits are funded with revenues received from its members and the disability benefits are also funded by the Thoroughbred Racing Associations of North America, Inc. through payments it makes for media rights (Note 8). The states of California, Delaware, and Massachusetts provide funding for benefits which are restricted for the use of jockey's riding in those respective states (Note 10). As of December 31, 2003 the Guild represented approximately 1,100 jockeys.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting** - The financial statements of the Guild have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Basis of Presentation** - The Guild reports information regarding its financial position and activities according to two classes of net assets: unrestricted net assets and temporarily restricted net assets. The net assets and revenues, gains and losses are classified based on the existence or absence of donor stipulated restrictions as follows:

*Unrestricted net assets* - Net assets that are not subject to donor-imposed restrictions.

*Temporarily restricted net assets* - Net assets that are subject to donor-imposed restrictions that can be fulfilled by actions of the Guild or that expire through the passage of time. These assets are accounted for in the Health and Welfare fund.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management make estimates and assumptions that may affect the reported amounts of assets and liabilities, the disclosures of contingent liabilities, and the reported amounts of revenues and expenses. Significant estimates have been made with respect to the ability to collect accounts receivable, the ultimate liability for member refunds payable, the ability to realize the gain arising from the estimated prepaid pension costs, market valuation of investments, medical claims payable, and reserves for estimated future claims. Actual results could differ from those estimates.

**Statement of Cash Flows** - For the purpose of the statement of cash flows, the Guild considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Guild maintains cash balances in federally insured institutions in excess of insured amounts.

The Guild paid no interest or taxes during the year ended December 31, 2003.



***JOCKEYS' GUILD, INC.***  
***NOTES TO FINANCIAL STATEMENTS***  
***YEAR ENDED DECEMBER 31, 2003***

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts receivable** - Accounts receivable consist primarily of track revenues for media rights, member mount fees, assessments, and dues receivable.

**Investments** - Investments consist primarily of marketable equity and debt securities. The specific identification method is used to determine the carrying value of investment securities. The Guild accounts for investments at fair market value in the financial statements. The change in fair market value is recorded as an increase or decrease to net assets through investment income.

**Furniture and equipment** - Furniture and equipment are recorded at cost. Depreciation is calculated using the double declining balance method over the estimated useful lives of 5 to 7 years. The cost of normal maintenance and repairs is expensed as incurred. Additions and betterments of a major nature are capitalized. When furniture and equipment are retired from use or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gains or losses are recorded in income or expense.

**Compensated absences** - The Guild has no policy regarding vacation or sick pay, and therefore, as of December 31, 2003, no accrual has been made for compensated absences.

**Revenue recognition** - The Guild's revenues consist primarily of mount fees, assessments, dues from members and revenues from race tracks for media rights. Mount fees are assessed on each mount ridden by a member and are recognized during the period in which the mount takes place (Note 7). Revenues from race tracks for media rights (Note 8) are recognized during the period in which the racing day occurs. The Guild is dependent on the overall economy of the thoroughbred racing industry.

**Grants, contributions, and donations** - All grants are considered to be available for unrestricted use unless specifically restricted by the grantor. Amounts received that are designated for future periods or restricted by the grantor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reported in the statement of activities as released to unrestricted net assets.

**Income taxes** - The Guild is exempt from federal income taxes under Section 501(c) (5) of the Internal Revenue Code as a labor organization and the laws of the state of Nevada. Therefore, no provision for federal or state income taxes has been accrued.

**Functional allocation of expenses** - The cost of providing the various programs and activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services provided.

**JOCKEYS' GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2003**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Self-funded health insurance** - Beginning in 2002, the Guild began providing self-funded health insurance (medical, dental, and vision) to its members. Under the self-funded insurance program, the Guild provides up to \$75,000 of eligible member and dependent health care coverage. Supplemental reinsurance is provided by a third-party insurer for health care claims in excess of \$75,000 up to \$1,000,000 per year (\$2,000,000). Life insurance is provided by Metlife. The Guild employs Marsh Risk and Insurance Services, Inc. ("Marsh") as consultants, who determine self-funded insurance premiums based on methodologies and actuarial practices consistent with insurance industry underwriting standards.

The Guild employs P5 Health Services, Inc. ("P5") as third-party administrator of the self-funded health insurance. The Guild's medical provider is Private Healthcare Systems, Inc. Safeco Corporation provides stop-loss reinsurance for medical coverage. Careington International Corporation provides dental services and Express Scripts, Inc. provides prescription fulfillment services.

**Claims payable** - Claims payable consist of claims in process at December 31, 2003 as well as an estimate of claims incurred, but not yet reported, for services provided prior to December 31, 2003. This estimate is based on claims history, average claims and payment processing time required by third-party administrators. Claim processing costs, when material, are also accrued based on the estimated expenses necessary to process the claims. Eligible health care claims are generally paid within a few months of members receiving services. Because medical claims payable includes various estimates, the Guild's actual costs may be more or less than the Guild's previously developed estimates. Adjustments of prior estimates may result in additional costs or a reduction of costs in the period the adjustment is made.

**Reserve for future claims** - The reserve for future claims is estimated in conjunction with the determination of self-funded health insurance premiums. Such estimates are developed using actuarial principles and assumptions that consider, among other things, expected claims using a claims lag table, membership demographics, historical claims activity, medical inflation, estimated claims for the year, a medical reserve, and a claims fluctuation rate.

In developing its best estimate of the reserve for future claims, the Guild consistently applies the actuarial principles and assumptions while also giving consideration to the potential variability of these factors. Reserve estimates are incorporated in premium computations developed by Marsh. Because the reserve for future claims includes various actuarially developed estimates, the Guild's actual claims costs may be more or less than the Guild's previous estimates. The reserve for future claims is monitored and reviewed with adjustments, if any, reflected in current operations.

The Guild's future results will depend, in part, on managements ability to predict self-funded insurance claims and manage insurance costs through underwriting criteria and negotiation of favorable insurance and reinsurance contracts. The Guild's ability to contain such costs may be affected by changes in member and dependent demographics, the health care and insurance industries, and inflation. The Guild's inability to mitigate any or all of these items or other factors may affect the Guild's future financial performance.

**JOCKEYS' GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2003**

**NOTE 3 - ACCOUNTS RECEIVABLE**

The Guild has specifically identified and written-off or provided an allowance for all accounts of which the Guild considers collection to be doubtful. As of December 31, 2003 the Guild has recorded a \$325,000 allowance for bad debt which is netted against related accounts receivable.

**NOTE 4 - FURNITURE AND EQUIPMENT**

As of December 31, 2003, furniture and equipment consist of the following:

	2003
Computer hardware	\$ 85,591
Furniture & fixtures	<u>93,567</u>
	179,158
Less: accumulated depreciation and amortization	<u>(147,436)</u>
	<u>\$ 31,722</u>

**NOTE 5 - INVESTMENTS**

Marketable securities are unrestricted, managed by an investment manager, and held by a third-party trustee. As of December 31 they consist of:

	2003		
	Cost or Other Basis	Fair Value	Unrealized Gain (Loss) Cumulative
Unrestricted:			
Common/preferred stock	<u>\$ 759,953</u>	<u>\$ 1,584,758</u>	<u>\$ 824,805</u>

Investment income for the year ended December 31, 2003 consists of the following:

	2003
Net realized and unrealized gains, net	\$ 299,159
Interest and dividends	<u>56,870</u>
	<u>\$ 356,029</u>

**JOCKEYS' GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2003**

**NOTE 6 - INTERFUND BALANCE**

The interfund receivable (payable) represents the balance of amounts due from the Health and Welfare Trust Fund to reimburse the Guild for expenses incurred providing insurance and other benefits to the member jockeys (Note 10).

**NOTE 7 - MEMBER MOUNT FEES AND REFUNDS PAYABLE**

Jockeys that join the Guild agree to pay a fee each time they mount a horse in a race, in addition to their basic dues, to help fund the activities of the Guild. The fee was \$3 during 2003.

Regular active members of the Guild may elect to have an additional \$7 withheld from their mount fees and remitted to the Guild to pay for certain benefits such as medical insurance. To the extent the fees remitted exceed the cost of the benefits, a liability to the jockey is recorded.

Prior to 2002, the regular active members of the Guild could voluntarily participate in a savings plan under which a portion of each mount fee earned by the jockey was deposited in an individual savings account for, and in the name of, the jockey at a thrift institution. Member refunds payable is made up of the excess fees collected less costs paid plus any unpaid member savings plan accounts. The regular active members may request refund payments of these amounts at any time.

**NOTE 8 - MEDIA RIGHTS**

The Guild operates under an agreement with the Thoroughbred Racing Association of North America, Inc. (the "TRA"), which represents the racetracks. The agreement governs the use of jockeys' names and pictures for radio, television, and off-track betting purposes (e.g. media rights). For these media rights, each track contributes to the Guild, an amount for each mount raced as well as a fee for each race day the track was open. The contract was effective through December 31, 2002. Contract negotiations with the TRA are pending; however, the TRA has continued to perform based on the terms of the expired contract.

During 2003, the amounts paid to the Guild for each day that racing occurred and the fee for each jockey who mounted a horse were:

	<u>Class A Race Meeting</u>	<u>Class B Race Meeting</u>	<u>Class C Race Meeting</u>
Racing day fee	\$75	\$65	\$50
Mount fee	\$7.57	\$4.96	\$3.63

California race tracks do not pay the fee per race day. All monies earned under these agreements are recognized as media rights income.

*See Independent Auditors' Report*

**JOCKEYS' GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2003**

**NOTE 9 - DEFINED BENEFIT PENSION PLAN**

The Guild has a non-contributory defined benefit pension plan, that covered substantially all of its employees through March 31, 2001 when the plan was frozen. The benefit obligation below reflects the obligation as of December 31, 2003. Benefits are based on years of service and the employees' highest average compensation for a 5-year consecutive period in the last 10 years of employment, through March 31, 2001. No further benefits accrue to plan participants after March 31, 2001. The Guild's funding policy is to satisfy the minimum contribution required by law, but such minimum contributions cannot be in excess of the maximum contributions permitted to taxable organizations by the Internal Revenue Code.

Net pension costs consist of the following for year ended December 31:

	<u>2003</u>
Service cost - benefits earned during the year	\$ -
Interest cost	225,414
Net amortization and deferral	-
Return on plan assets	(296,671)
Net periodic pension credit	<u>\$ (71,257)</u>

The assumptions used to develop the projected benefit obligation were:

	<u>2003</u>
Discount rate	6.5%
Rate of increase in salary levels	N/A
Expected long-term rate of return on plan assets	7.0%

The following table sets forth the plan's funded status and amounts recognized as of December 31, 2003. Actuarial present values of benefit obligation as of December 31 were:

	<u>2003</u>
Market value of plan assets	\$ 4,331,158
Benefit obligation	<u>(3,560,901)</u>
Funded status	770,257
Unrecognized net asset	-
Unrecognized net (gain)/loss	<u>(24,175)</u>
Prepaid pension costs	746,082
Valuation allowance	<u>(746,082)</u>
Prepaid pension costs net of valuation allowance	<u>\$ -</u>

The Guild has not recognized the gain on freezing the plan which resulted in estimated prepaid pension costs of \$746,082 as of December 31, 2003. Guild management does not believe the Guild will ultimately realize that gain.

*See Independent Auditors' Report*

**JOCKEYS' GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2003**

**NOTE 10 - RESTRICTED STATE FUNDING**

The states of California, Delaware, and Massachusetts have passed legislation to provide funding to help defray the costs of providing certain health and welfare benefits for jockeys. The Guild has been appointed as the representative organization of California, Delaware, and Massachusetts jockeys under these programs. This funding, under the California and Delaware programs, is held in a separate health and welfare trust for each state. The Delaware legislation requires the Guild to pay into the trust \$500 for each eligible Delaware jockey participating in the program. The Guild's management determined there were forty-seven (47) eligible Delaware jockeys during 2003, and therefore paid \$23,500 into the Delaware trust. Delaware and California legislation provided for a maximum funding amount in the year enacted, which is adjusted annually for inflation. Net assets of the Health and Welfare Trust fund are balances for which temporary restrictions have not been satisfied and, therefore, are effectively unearned and retained in trust and available for future periods. Restricted state funding recognized during the year, the amounts for which restrictions were fulfilled (resulting in releases of the restricted net assets), state funding receivable and the remaining unearned restricted trust assets as of or for the year ending December 31 are:

	<u>2003</u>
State funds recognized	
California	\$ 904,659
Delaware	<u>356,488</u>
	<u>\$ 1,261,147</u>
State reimbursement receivable	
California	\$ 1,517,390
Delaware	<u>356,488</u>
	<u>\$ 1,873,878</u>
Remaining restricted net assets held in trust (unearned)	
California	\$ 612,411
Delaware	<u>1,042,388</u>
	<u>\$ 1,654,799</u>

**JOCKEYS' GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2003**

**NOTE 10 - RESTRICTED STATE FUNDING (CONTINUED)**

Subsequent to December 31, 2003 the state of California released \$612,431 to fulfill \$870,847 of 2002 costs eligible for reimbursement and released \$904,659 to fulfill 2003 costs eligible for reimbursement. During 2004 the state of Delaware released \$356,488 of 2003 costs eligible for reimbursement. As of December 31, 2003 the Commonwealth of Massachusetts had provided the Guild cumulative funding (2002 and 2003) of \$130,000 and the Guild had incurred cumulative eligible costs of \$112,842. The remaining unearned revenue of \$17,158 is available to defray future costs the Guild incurs on behalf of Massachusetts jockeys, in excess of commonwealth funding provided.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

**Litigation** - In the normal course of its operations, the Guild is involved in a variety of legal disputes. In the opinion of Guild management, the amount of ultimate liability with respect to all of these actions will not have a materially adverse effect on the financial condition of the Guild. As of December 31, 2003, no liability has been recorded with respect to any these actions.

On December 1, 2004, the Guild was named as a defendant in a lawsuit filed in New Jersey superior court by two Guild members. The action requests injunctive relief for the plaintiffs to receive a current accounting of the Guild's activities and access to the Guild's books and records. Guild legal counsel will prepare a response to the claim during December 2004. As such, no potential liability is determinable or has been accrued as of December 31, 2003.

The Guild and Matrix (see below) are plaintiffs in an action against a former independent contractor of Matrix. The defendant has filed a cross complaint against the Guild and certain of its officers and directors. This case is in the discovery stage and therefore no liability can be estimated as of December 31, 2003.

**NOTE 12 - RELATED PARTY TRANSACTIONS**

**Management Company** - The Guild retains the services of Matrix Capital Associates, Inc. ("Matrix"), as operating manager under an agreement that expires December 31, 2006. During 2003 management fees under this agreement were approximately \$412,000. The terms of the agreement specify that the Guild would employ Dr. Gertmenian as president and chief executive officer at an annual compensation of \$160,000. In addition, the Guild would provide directors and officers insurance, reasonable and customary disability insurance, \$12,000 per year of life insurance premiums with the beneficiaries to be designated by Dr. Gertmenian, a leased car with the cost to the Guild not to exceed \$500 per month and other reasonable customary business expenses. Matrix will provide leased facilities to the Guild for a ten (10) year period with the annual rent not to exceed \$97,464.

**JOCKEYS' GUILD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2003**

**NOTE 12 - RELATED PARTY TRANSACTIONS (CONTINUED)**

On or before December 31st of each year, the parties agree to re-negotiate, extend, or terminate this contract. In the absence of such agreement, or if either party terminates this agreement for any reasons, the Guild will pay the balance of Dr. Gertmenian's salary owing on this three-year contract within ninety (90) days of written notification by either party.

**Disabled Jockeys' Fund** - The Disabled Jockeys' Fund (the "Fund") is a trust that was established in Kentucky in 1991 to accept charitable contributions for the purpose of providing benefits to jockeys who are temporarily or permanently disabled. The Fund and the Guild share administrative functions and management. The Guild pays certain administrative costs of the Fund, which are not material to the Guild's financial statements.

**Disabled Jockeys' Endowment, Inc.** - Disabled Jockeys' Endowment, Inc. (the "Endowment") is a trust established in Nevada in 2002 to accept charitable contributions on an endowment basis for the purpose of funding the Fund. Donations to the Endowment are permanently restricted by the donors. The benefits provided are to be paid out of investment earnings with no right to invade the principle. The president of the Guild represents the Guild's interest as a trustee of the board of directors of the Endowment. The Guild pays all administrative costs of the Endowment, which are not material to the financial statements of the Guild. During 2003 the Guild contributed \$250,000 to the Endowment.



## SUPPLEMENTARY SCHEDULE

**JOCKEYS' GUILD, INC.**  
**SCHEDULE OF PROGRAM AND SUPPORTING SERVICES**  
**YEAR ENDED DECEMBER 31, 2003**

**PROGRAM SERVICES**

	<u>2003</u>
Insurance and disability benefits	
Health, dental, vision costs and insurance	\$ 2,129,311
Life insurance	229,338
Disability insurance	596,414
Third-party administration	1,200,349
Compensation and benefits	366,077
Professional services	120,703
Travel and lodging	261,392
Other	<u>555</u>
	4,904,139
Contribution to the Endowment	<u>250,000</u>
	<u>\$ 5,154,139</u>

**SUPPORTING SERVICES**

	<u>2003</u>
Compensation and benefits	\$ 274,597
Professional services	309,329
Transportation and lodging	153,928
Taxes and licenses	1,312
Occupancy costs	162,128
Bad debts	302,786
Conventions and meetings	74,444
Office supplies	82,247
Freight, postage and delivery	36,928
Dues and subscriptions	4,414
Management services	412,000
Other	<u>40,076</u>
	<u>\$ 1,854,189</u>

*See Independent Auditors' Report*

1

